

We believe that the wisdom of this decision has been supported over time considering M/A-Com's willingness to 1) insure that each consumer descrambler would accommodate a broad array of programming services, 2) amend its designs to insure a high rate of compatability with home TVRO systems, 3) provide detailed specification to other manufacturers to accommodate any retrofitting of existing home TVRO equipment and to allow future generations of this equipment the ability to accept "plug-in" descrambling modules, 4) license its technology to other equipment manufacturers and 5) operate the consumer descramber authorization computer center in an attempt to encourage other programmers to use this central, not-for-profit facility.

### III. HBO Business Plan for Serving Earth Station Owners

HBO's business plan for serving home earth station owners has three distinct elements: 1) a marketing system containing the terms and conditions under which HBO will offer the scrambled services; 2) the technical process for delivering the scrambled signal and authorizing consumer descramblers; and 3) a consumer public awareness campaign to explain scrambling.

Com announced, on January 15 when HBO began full-time scrambling, it had shipped descramblers to meet all the firm orders it had received. Earth station retailers, cable operators and other retail outlets are now selling descramblers. In addition, consumers may deal directly with Channel Master, a national retailer of earth station equipment, and often receive a descrambler within 48 hours.

Naturally, an earth station owner would look first to its earth station retailer to obtain a descrambler. If that earth station owner cannot provide its customer with a descrambler, it is simply because it did not order a descrambler.

#### V. Public Policy Considerations

A number of public policy concerns have been raised by scrambling opponents. Many of these considerations were carefully considered and factored into the technical and marketing development of HBO's scrambling system. The remainder have either been overtaken by market developments and therefore rendered irrelevant or have simply proven to be false.

1) Consumers will not have to purchase a different descrambler for each satellite program service they wish to receive. The M/A-Com Videocipher II system appears to have become the industry scrambling standard. In addition to HBO and

Cinemax, a large number of program services have announced their intention to scramble and use the M/A-Com system, including Showtime, The Movie Channel, WTBS, CNN, CNN Headline News, Disney Channel, Christian Broadcast Network, MTV, Nickelodeon, Nashville Network, Black Entertainment Television, USA Network, VH-1 and Satellite Program Network. The marketplace has worked quickly and effectively and as a result consumers will only have to purchase one descrambler to receive all of these services.

2) Cable operators do not have a monopoly in the provision of scrambled satellite program signals. On the contrary, HBO will not authorize any entity, including the cable operator, to offer its scrambled services on an exclusive basis. Even inside cable franchise areas, HBO will offer an alternative to the cable operator through its direct 800 telephone number system. The assertion that cable operators will in effect monopolize the provision of scrambled services within franchise areas is false. Over 75 percent of earth station subscribers have subscribed directly through HBO without dealing with a cable operator. Consumers have choices -- there is no monopoly and no exclusivity associated with the offering of scrambled satellite services.

3) The price HBO will charge for its scrambled services is reasonable. \$12.95 per month is comparable to what the average cable consumer pays for HBO. Moreover, it is significantly less expensive than some consumers pay. In Washington, D.C., for example, consumers pay \$17.95 per month for HBO via the Marquee

MDS distributor. \$12.95 per month for HBO is very close to what a Washington Post subscriber pays monthly and is less than the monthly charge for The New York Times. In fact, to get HBO and Cinemax on the Arlington, Virginia cable system a subscriber would pay \$36.20 per month. The argument that basic cable services are included in that price is irrelevant. Our research indicates that consumers purchase earth stations because they want to pick individual stations of their own choice. Moreover, even assuming an earth station owner wanted additional basic cable services, at prevailing prices (\$25 per year), he could get eight basic services, HBO and Cinemax and still pay less than the Arlington cable subscriber pays.

It should also be noted that comparisons between prices paid by cable operators, cable subscribers and earth station owners are all somewhat inapposite. The economic structure and attendant administrative costs of these three entities are very different. For example, HBO has contracted for an unaffiliated entity to provide billing services for all its customers, including earth station owners. It costs HBO the same amount for processing a check from a single earth station owner as it does to process a check from a cable operator who delivers 50,000 subscribers.

Finally, cable operators may establish their own prices to earth station owners and some have announced prices lower than \$12.95.

4) There are a sufficient number of descramblers available to satisfy demand among earth station owners. On January 15, when HBO began scrambling, M/A-Com had shipped descramblers to satisfy all the orders for release it had received. As noted, some earth station retailers have been unable to follow up their initial sale of an earth station by providing their customers with a descrambler. However, if those dealers do not have descramblers, it is because they did not perceive their customers' need for them.

5) The price of the consumer descrambler is reasonable. SPACE proves this point. It attempts to argue that there are an insufficient number of descramblers available, by pointing to demand among earth station owners. That demand proves the reasonableness of the descrambler price. In addition, like any piece of consumer hardware, the initial price of the descrambler reflects development costs and will likely go down over time, depending on consumer demand. The Videocipher II descrambler — offers very sophisticated encryption protection. In the past, — simpler and less expensive scrambling methods were easily broken. — Inexpensive "black boxes" were readily available to defeat the scrambling codes. Videocipher II provides a much tougher — scrambling standard and that costs more. —

6) At HBO's urging, the M/A-Com scrambling system was designed to be compatible with over 90 percent of home earth stations. There are a very large number of earth station models

available today and a wide range of quality. Nonetheless, HBO has always had as a criteria for a scrambling system that it be broadly compatible with that variety of earth stations. The M/A-Com scrambling system satisfies that criteria and is capable of delivering a descrambled picture with the overwhelming majority of earth stations. The small number of incompatibility problems that do exist are attributable primarily to cheap earth stations that deliver a poor quality signal and therefore have difficulty handling scrambled signals.

7) The airwaves may be "free," but HBO's programming is not. SPACE has acknowledged publicly and frequently that its membership does not oppose paying for HBO's services. The airwaves are merely a medium through which HBO transmits the product it sells -- programming. Nobody can seriously dispute HBO's right to charge for its program services.

8) Section 705 of the Cable Communications Policy Act does not require satellite programmers to negotiate the price for such services individually with earth station owners or with a group representing earth station owners. There is absolutely no support for such a position in the statute and the legislative history relied on by proponents of this plan is weak and strained. The practical difficulties of requiring such individual negotiations are self-evident and it is inconceivable that Congress would have adopted such a novel approach without ever mentioning it. Moreover, a traditional marketplace

negotiation is actually taking place now. HBO has established a price for its services. Consumers have the option to take these services or not and HBO will respond to this marketplace reaction. A government-gerrymandered negotiation is unworkable and unnecessary.

9) No U.S. tax dollars were used to build, launch or maintain the satellites by which the program services are distributed. These satellites have been put into space by private enterprise and not government subsidization. The notion that satellite program services could not have developed without expenditure of tax dollars on the space program and that as a result consumers are entitled to subsidized rates for satellite program services is specious. It is like saying consumers should get free or subsidized velcro because it was developed originally for use in space, or free personal computers because computer technology was advanced as part of the U.S defense research.

## VI. Conclusion

HBO is now selling its HBO and Cinemax program services to owners of home earth stations. In so doing, it recognizes a longstanding congressional desire to make the services available to millions of Americans, particularly those in rural areas. The prices for the services are fair and reasonable. The technology and the authorization process are easily understood by consumers

and working efficiently. Most importantly, earth station owners have choices -- they are not locked into any single entity to obtain descramblers or program authorization. There is no exclusivity in the provision of equipment or programming.

Government intervention now would be counterproductive. HBO has already welcomed over 3000 earth station families to join its over 18 million subscribers. More are being authorized every day. Consumers now have a specific scrambling marketing plan before them. They have the information they need to make informed choices. They are competent to make those choices.

Government regulation would inject an unknown set of complications and severe costs; costs that would ultimately be borne by consumers. This is particularly true of the bills now before Congress which would prohibit scrambling altogether or force a complex and costly rate regulation structure on this new business. Such extreme measures are unnecessary. The marketplace is working now to provide consumers with the services they want at prices they can afford.

Mr. Chairman, in business as in politics one must never believe that one is comfortably ahead. Although I have today spoken of several successful business and technological initiatives by HBO, we have had our setbacks as well. I am always mindful of the fierce competitive instinct which is perhaps the essential element of the American character. It is



that instinct and the relentless search to better understand and respond to the needs of the television consumer that has driven all our decisions in the satellite area. We believe as well that all of those decisions have been and continue to be in the public interest.

Thank you for your attention, and I will be pleased to answer any questions you may have at the appropriate time.



STATEMENT OF  
RONALD LIGHTSTONE

SENIOR VICE PRESIDENT, CORPORATE AND LEGAL AFFAIRS  
VIACOM INTERNATIONAL INC.

BEFORE THE  
SUBCOMMITTEE ON TELECOMMUNICATIONS,  
CONSUMER PROTECTION AND FINANCE  
UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 6, 1986  
HEARINGS ON SATELLITE TELEVISION SCRAMBLING

VII

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear this morning on behalf of Viacom International Inc. at the invitation of the Subcommittee to discuss satellite television scrambling.

Viacom is concerned about this issue from several diverse perspectives, since various divisions and subsidiaries of our company are involved in many different aspects of the satellite television industry.

For example, within the Viacom Entertainment Group, Viacom Productions develops and produces programming--independently and in association with others--for television, with our current emphasis on television series, movies and mini-series for broadcast and pay television networks. Viacom Enterprises is the world's leading independent distributor of off-network television programming and a major distributor of feature films and first-run television programming, selling product to television stations in all U.S. markets, as well as to the basic and pay cable television programming networks. Viacom's Licensing and Merchandising Department is engaged in the licensing of entertainment and informational programming to the home videocassette market and in the licensing of various trademarks and television characters in conjunction with consumer products. And MGS Services is the nation's leading distributor of television commercials.

In the Viacom Networks Group, Showtime/The Movie Channel Inc. operates two of the nation's largest satellite pay television networks, Showtime and The Movie Channel, which transmit entertainment programming to nearly 8.5 million subscribers in the

United States. Showtime/The Movie Channel also operates Viewer's Choice, a national satellite pay-per-view network reaching a potential 500,000 subscribers. MTV Networks Inc. operates four advertiser-supported satellite cable television programming services--MTV: Music Television, VH-1: Video Hits 1, Nickelodeon and Nick at Nite--reaching as many as 28 million U.S. households. Lifetime, a joint venture of Viacom and two other communications companies, is a major national advertiser-supported satellite cable television service with programming directed to women and the medical community in more than 25 million American households.

Within Viacom Communications, Viacom's Cable Television Division is the nation's eleventh largest multiple system operator, serving more than 829,000 customers in 17 systems located in California, New York, Ohio, Oregon, Tennessee, Washington and Wisconsin. The Division is also involved with other cable operators in regional advertiser-supported cable interconnects serving nearly 1.1 million customers in Cleveland and Dayton, Ohio, the San Francisco Bay area and the Seattle/Tacoma, Washington region. The Viacom Broadcast Group owns and operates four television stations (with the pending acquisition of a fifth outlet, KMOX-TV in St. Louis) and eight radio stations in major markets, including television stations WVIT, New Britain/Hartford/New Haven, Connecticut; WNYT, Albany, New York; KSLA-TV, Shreveport, Louisiana; and WHEC-TV, Rochester, New York. Our radio stations include WLTW-FM, New York City; WLAK-FM, Chicago; WMZQ-AM and FM, Arlington, Virginia/Washington, D.C.; KIKK-AM and FM, Pasadena/Houston, Texas; and WRVR-AM and FM, Memphis, Tennessee.

Viacom World Wide distributes network television programming, syndicated programming and feature films to broadcast and cable television organizations in 125 countries outside the United States through sales offices and agents located in 13 nations. It is also responsible for exploring, developing and consulting on business activities in the international markets of cable and pay television and other media by applying overseas the expertise developed by Viacom in the United States.

In sum, Viacom International Inc. is a diversified communications and entertainment company. The consolidated revenues of the businesses it presently owns represented revenues in 1985 of more than \$800 million.

I would like to turn to the issue this Subcommittee is considering today--satellite television scrambling. The primary reason for scrambling our satellite cable television services is to protect them against piracy by unauthorized commercial operations. There are two primary types of piracy of cable television signals: piracy of the signal directly from the satellite, and theft of service within the cable system or other distribution system.

The revenues lost to satellite cable programming services and their authorized affiliates by commercial piracy are immense. We estimate that cable operators and programmers lose at least \$500 million a year nationwide to theft of service within cable systems alone. That figure is based on several statewide surveys of cable operators conducted by Showtime/The Movie Channel, extrapolated to the whole country. This figure of more than half a billion dollars a year nationwide does not include the losses to related industries such as motion picture distributors, whose fees are set according to

the number of paid subscribers a programming service has. We do not yet have any precise figures regarding the lost revenues from satellite signal piracy, but they are certainly very substantial.

This huge revenue loss is not the only consequence of commercial piracy. The viability of pay television programming services, such as Showtime and The Movie Channel, is based on the premise that pay television is television worth paying for. If a subscriber to a pay cable programming service sees that his neighbor is getting the service for free, he is unlikely to want to spend money for it, and the perceived value of the programming service diminishes.

Similarly, if a cable operator, SMATV operator or other authorized affiliate of a satellite cable programming service is carrying the service and paying monthly license fees for doing so, and a nearby unauthorized commercial operator is receiving and retransmitting the same service in an unauthorized manner without paying for it, the honest, authorized operator is unjustly placed at a commercial disadvantage.

We at Viacom--as a satellite cable programmer, cable operator, program producer and program distributor--are concerned with protecting the integrity of our product and with ensuring the continued viability of our program services and cable operations. To the extent that commercial signal piracy remains unchecked, our revenues will diminish and our operating costs will increase. Commercial theft limits the number of subscribers that programming services and their authorized affiliates can collect revenues from. On the system level, this often means that there will be less money

to devote to community programming, often known as local origination programming. From the point of view of a programming network like Showtime, commercial theft also means the loss of substantial revenues that otherwise could be used to improve the quality and diversity of programming. Indeed, pay television services depend on subscriber license fees for virtually all their revenues.

There is one more consequence of rampant commercial signal piracy. We believe it discourages the growth of ancillary services and other potential revenue-generating sources. Who will want to invest in home banking and shopping and information-based services if the security of the system cannot be assured? Even partial recovery of the revenues now being lost to commercial theft of service could provide our industry with the capital we need to explore more fully the development of these ancillary services.

We believe that scrambling will accomplish three primary goals. First, we view scrambling as an important and necessary tool to combat piracy of our satellite cable programming signals by unauthorized commercial operations that intercept the satellite signals and distribute them to apartment complexes, hotels, bars and the like. The Videocipher-II scrambling process we are planning to use (which was developed by M/A-COM) will allow us to do two things--it will encrypt the satellite signal, and it will make that signal addressable to individual decoder boxes. In this manner, we will seek to ensure that our satellite signals will not be misused by unauthorized commercial operations.

The second goal that will be accomplished is that scrambling will promote the marketing of satellite cable programming services

and, in fact, will be an important ingredient to effective marketing of those services. The individual addressability provided by the scrambling technology will enable us to make our services available to backyard earth station owners who wish to subscribe. This goal was one of those expressly contemplated when the Cable Communications Policy Act of 1984 was enacted. The Report of the Conference Committee on the Cable Act stated that "[t]he technology associated with encrypting, encoding, scrambling or otherwise altering a signal so that a special device is required to receive an intelligible signal, enables parties with the right to the programming to control the distribution of their product in a manner that provides an incentive for them to make their product available to the satellite home viewer." We believe that in fact scrambling will make an important contribution to effective marketing of satellite cable programming services such as ours, and this helps to justify the substantial cost of scrambling.

The third purpose that will be accomplished is that scrambling will give satellite cable programming networks an enhanced ability to monitor the accounting practices of their affiliates to make sure that all systems receiving the satellite signals are in fact accounting and remitting license fees on the correct basis. This will better enable the programming services to ensure that the proper accountings and payments are made by their affiliates.

For the above reasons, Showtime has in fact been looking into scrambling its satellite signals for the past six years. Showtime did not make the investment in scrambling several years ago because the cost of developing the technology and the unit price of the



decoders was prohibitive (as high as \$15,000 per unit decoder). However, as the cost of the technology and the decoder boxes decreased and as the unauthorized use of earth stations by commercial operators to intercept satellite signals and distribute them to apartment complexes, hotels, bars and the like increased, the need for (and the viability of) scrambling increased.

In addition to its plans for scrambling, Showtime/The Movie Channel has taken other measures in an effort to combat piracy of its satellite signals by unauthorized commercial operators. I would point out that all of our efforts in this regard have been directed towards commercial operators that we believe have received, retransmitted and charged subscribers for our satellite cable programming to hotels or apartment complexes without authorization and for their own profit. Our anti-satellite piracy efforts have not been directed against individuals with their own backyard dishes who have received satellite cable programming for private viewing.

Since the passage of the 1984 Cable Act, Showtime/The Movie Channel has established detailed procedures for obtaining, processing and verifying reports of unauthorized commercial interception and distribution of its satellite programming services. Showtime/The Movie Channel has sent over 400 cease and desist letters to commercial operations as to which it had received reports of unauthorized reception and retransmission to hotels, motels, bars, restaurants and apartment complexes. Certain cases in which a satisfactory response was not received have been investigated for possible litigation.

Showtime/The Movie Channel has commenced litigation against five unauthorized commercial properties (hotels, motels and apartment

complexes) based on the investigations that were conducted. In these lawsuits, it has sought preliminary and permanent injunctions against any continued unauthorized interception and retransmission of the satellite cable programming, as well as damages for infringements that have occurred. These actions have been brought under the Cable Communications Policy Act of 1984 and in addition, where appropriate, there have been claims involving copyright infringement, trademark infringement, unfair competition, and common law or state statutes. To date, one case has been settled and preliminary injunctions have been issued in two others. We contemplate that additional lawsuits will be brought against unauthorized commercial operators under the strengthened remedies available for unauthorized interception of satellite cable programming contained in the 1984 Cable Act. We hope that lawsuits such as these will have a deterrent effect on commercial piracy. However, litigation is of course costly and is necessarily targeted against individual commercial operations. We believe scrambling is an indispensable tool to combat this problem on an overall basis.

In addition to the legal efforts noted above, Showtime/The Movie Channel has been actively involved in a campaign to help educate the public and the industry about theft of service. At the cable system level, the elements of this campaign have included Showtime/The Movie Channel's "Theft of Service Combat Kit," widely regarded as an important industry tool in combatting theft of service. Showtime has also produced television spots with the stars of Showtime television series, such as John Houseman of "The Paper Chase" and the stars of the series "Brothers," speaking on the issue of theft of service.

I would also like to note that while the great majority of Showtime/The Movie Channel's authorized affiliates are franchised cable operators, Showtime and The Movie Channel for several years have licensed their programming through other distributors as well. For example, Showtime/The Movie Channel licenses its programming on a property-by-property basis to apartment complexes and other multiple dwelling units through operators which build, manage or control satellite master antenna systems in such buildings. In this connection, Showtime/The Movie Channel has a uniform policy for the licensing of such properties and a separate and specific SMATV licensing agreement. Showtime/The Movie Channel also licenses its services to hotel/motel distributors for distribution to hotels and motels, and has a sales group devoted principally to such markets as SMATV and hotel/motel. In addition, Showtime/The Movie Channel grants to its local cable affiliates the right to authorize SMATV systems as well as hotels and motels in the cable affiliate's franchise area to receive its programming services directly via satellite, as well as via coaxial cable.

At this point, I would like to briefly address certain aspects of the 1984 cable legislation and then discuss our specific plans for scrambling.

Viacom and Showtime/The Movie Channel played an active role in the development of the Cable Communications Policy Act of 1984. We believe that the Cable Act struck a fair and reasonable balance between the needs of satellite cable programmers and program suppliers to be able to protect the integrity of their services and

the desires of satellite earth station manufacturers, distributors and owners to have access to those program services under appropriate conditions while they are unscrambled.

In 1984, I and other executives of Viacom and Showtime/The Movie Channel met with Members of this Subcommittee and with other concerned Congressmen and Senators. We indicated then that we wanted to develop a mechanism to provide our services to private backyard earth station owners, and that we saw this as a major potential untapped market that we wished to serve.

We were, and continue to be, active supporters of the compromise that was carefully negotiated in the enactment of the Cable Communications Policy Act of 1984. On the one hand, the Act broadened and strengthened the remedies available to an aggrieved party under the Communications Act of 1934 for unauthorized interception of satellite cable programming by establishing clear civil liability for such unauthorized interception and, in the case of a willful violation, criminal liability as well. It also gave a party whose rights are infringed by an unauthorized interception the right to recover actual damages resulting from the violation (including any profits of the violator) or statutory damages which are prescribed in the law (without the need to prove actual damages). The Act also expressly prohibited the unauthorized reception of service offered over a cable system and provided civil and criminal damages and penalties for violations. In addition, the legislative history made it clear that the new Cable Act would not affect any right or obligation under the federal copyright laws, which is important in preserving the ability of program suppliers such as Viacom Productions to protect their rights under copyright.

With respect to private backyard earth stations, the 1984 Cable Act provided an exemption from liability under the Communications Act for an individual receiving satellite cable programming if three conditions are met:

- o The reception must be for viewing for private use in an individual's dwelling unit by means of equipment, owned or operated by such individual, capable of receiving satellite cable programming directly from a satellite;
- o The programming involved must be unencrypted; and
- o There must be no marketing system established under which an agent has been lawfully designated to authorize private viewing by individuals, which authorization is available to the individual involved.

The net effect of these provisions is that an individual who receives unscrambled satellite cable programming for private use in his own dwelling unit by means of TVRO equipment owned or operated by him where no marketing system has been established which is available to him may receive such programming without liability under the Communications Act.

We believe that the provisions of the 1984 Cable Act referred to above represent a fair and workable compromise among the interests of all the involved parties. It is clear from the legislative history that the intent was to allow the marketplace to work within the framework established by the new law.

For example, the Report of the Conference Committee stated that the legislation, as amended, was intended

to provide satellite cable program suppliers  
in the future with two clear alternatives for

the protection of their satellite transmissions. They may either scramble their signal, or leave their signal unscrambled and establish a marketing system that results in individuals being authorized to receive the satellite cable programming through a compensation scheme. If unauthorized interception of satellite cable programming occurs after either of these two approaches have been followed, then a satellite cable programmer will have the ability to pursue the greatly strengthened penalties and remedies new section 705 provides.

The Conference Committee Report also made it clear that one of the underlying premises of the exemption from liability afforded private backyard earth station owners with respect to unscrambled satellite cable programming was that

the marketplace is fully capable of reaching, without any government intervention, a solution to the problem of unauthorized interception and receipt of encrypted satellite cable programming. The technology associated with encrypting, encoding, scrambling or otherwise altering a signal so that a special device is required to receive an intelligible signal, enables parties with the rights to the programming to control the distribution of their product in a manner that provides an incentive for them to make their product available to the satellite home viewer. Accordingly, the narrow exception to subsection (a) applies only to the more difficult problem of receipt or interception of unencrypted or unaltered satellite cable programming.

We are fully confident that the marketplace can work in a fair and effective manner within the framework of the new legislation as its sponsors intended. We do not see any need for any additional legislation that would prevent or hamper the ability of the marketplace to function within the parameters that were carefully worked out by all interested parties in 1984. For these reasons we

oppose any legislation (such as H.R. 1769 or H.R. 1840) that would have the effect of preventing the marketplace from being able to operate in this manner.

I will address a few of our specific concerns about the proposed legislation in greater detail below. At this point, I would like to briefly review the steps our programming services (beginning with Showtime/The Movie Channel) have taken in connection with scrambling their signals and marketing their services to the backyard TVRO market.

- o In November 1984, Showtime/The Movie Channel signed an agreement with M/A-COM for the purchase of the equipment to scramble and secure Showtime and The Movie Channel's satellite signals using M/A-COM's VideoCipher equipment.
- o In the Spring of 1985, Showtime/The Movie Channel sent headend registration forms to all of its affiliates and stated that all affiliates in good financial standing as of March 1, 1985 would receive one decoder paid for by Showtime/The Movie Channel per registered headend for each of their Showtime/The Movie Channel services.
- o In September 1985, Showtime/The Movie Channel began shipping M/A-COM decoders to its affiliates.
- o In November 1985, the company stated that test-scrambling on the satellite feeds of both Showtime and The Movie Channel would begin on January 13, 1986, and that full-time scrambling was anticipated to commence in May 1986. It was also announced that Showtime/The Movie Channel planned to use the services of M/A-COM's DBS Control Center, ensuring

that consumers would be able to receive all satellite signals presently using the M/A-COM VideoCipher II with a single home decoder. The announcement also emphasized M/A-COM's assurance that more than 100,000 home decoders would be in the pipeline to hardware dealers prior to the anticipated May deadline, and that Showtime/The Movie Channel had requested that M/A-COM seek the broadest possible distribution for the consumer decoders.

- o On January 13, 1986, Showtime/The Movie Channel postponed its test-scrambling plans for two weeks in order to allow additional time to process hundreds of headend registration forms which were received late from affiliates, affecting as many as 750,000 subscribers.
- o On January 27, 1986, test-scrambling of the East Coast satellite feeds of Showtime and The Movie Channel commenced.

The test-scrambling will initially be for short durations daily and will gradually increase until May, when it is anticipated that all satellite feeds will be encrypted 24 hours a day. There will, however, be no test-scrambling during the hours of 4:00 P.M. to 2:00 A.M. on weekdays or at any time on weekends. These hours are being left unscrambled due to our sensitivity to the needs of consumers who own private backyard earth stations.

The May date for full-time scrambling is dependent upon adequate technical performance, upon sufficient backyard decoder units being available for consumer purchase, and upon Showtime/The Movie Channel's having its ordering and billing systems in place. We have received assurances from M/A-COM that there will be a sufficient



quantity of backyard decoders for consumer use by our May deadline. M/A-COM has represented that there will be 100,000 units available by May 30, and 200,000 units by December 31, 1986.

Showtime/The Movie Channel is currently in the process of finalizing the remaining details of its plans for marketing its services to individuals owning backyard earth stations. I anticipate that the plans will be finalized and a public announcement made next week. In response to some of the questions and concerns that have been raised, I would like to indicate the following:

- o With respect to the decoders, Showtime/The Movie Channel does not plan to be in the business of selling or distributing consumer decoders or TVRO equipment itself. We have sought the widest possible distribution of the consumer decoders by M/A-COM, including distribution through earth station dealers. In this regard, we have been assured by M/A-COM that any qualified TVRO dealer that wishes to distribute the VideoCipher consumer descrambler hardware may do so through the local M/A-COM distributor under mutually agreeable business arrangements, and that the dealer will not be required to carry or distribute any other M/A-COM products. In addition, we have required that M/A-COM cross-license the technology used in the consumer descramblers under specified conditions.